RESEARCH HIGHLIGHTS

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DISINVESTMENT AND THE DECLINE OF URBAN NEIGHBORHOODS

Introduction

Disinvestment and decline occur in inner city neighborhoods throughout North America. The process is often associated with poverty, high levels of crime, conversion of single family to multi-family housing units, abandonment of the housing stock, and out-migration (movement of the middle class from inner city neighborhoods to the suburbs). Other features of neighborhood disinvestment and decline are mortgage redlining, exit of retail business, conversion to lower forms of non-residential land uses such as marginal business operations and specialized services for the poor, decline in relative or absolute land values, and in migration by economically marginalized populations.

This research examined the processes of urban disinvestment and decline with four objectives:

- To develop an understanding of forces and factors that trigger and accelerate decline;
- To create a framework for action that can stem and reverse decline;
- To examine the role of investment in housing as a primer of regeneration; and
- To identify opportunities for concrete action involving partnerships.

The research aims to inform the development of public policy, primarily at the local and municipal levels, by articulating a range of policies that can work to prevent or reverse inner city decline.

Methodology

The research comprises four main sources of information:

- A literature review anchors research in current understanding of the dynamics of urban growth and decline.
- Key informant interviews in six cities allow deeper insights into the processes of urban disinvestment and decline, and shed light on possible policy responses.
- Group interviews in two cities permit a more extensive exploration of urban disinvestment and decline.
- Analysis of Statistics Canada data helps characterize the nature and causes of decline in three major case study cities.

Together, the case studies: examine the extent to which the experience of the six selected cities conforms to the literature; identify the range of responses to urban decline being implemented in the Canadian context and evaluate them; and identify best practices in urban revitalization and renewal.

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Figure 1: Characteristics of declining neighborhoods

- Population loss
- Lower population density
- Lower resident socieconomic status
- Welfare dependancy
- Increase of elderly and non-family households
- High ratio of single-parent families
- Changing ethnic composition
- Deterioration of housing stock
- Aging housing stock
- Deterioration of real estate market
- Falling property and rent values
- Falling rates of homeownership
- Increase in absentee landlords
- Increased tax delinquency
- Declining private investment
- Decline in public servicing and investment
- Pessimistic attitudes toward neighborhood
- Weak community organizations

What is Disinvestment?

The disinvestment process is triggered when a community offers lower returns to the investor. As incomes fall and families leave a community, prices and rents in that community decline in comparison to other areas. This typically occurs because other communities gain relative amenities and advantages.

As prices and rents decline, owners become less interested in maintenance. Disinvestment is therefore initially manifested in delayed home improvements and discretionary repairs. With continued under-maintenance, buildings are condemned, abandoned, and destroyed. This is the culmination of the disinvestment process.

Precipitating factors in urban decline: findings from the literature

The cycle of disinvestment and urban decline is complex. Many theories contribute to an understanding of these processes, but none dominate the literature, possibly because of inadequacies in the data needed for testing hypotheses.

Characteristics of declining neighborhoods are well understood and ways to measure them are conceptually clear, although not always empirically available. Nonetheless, important indicators have been proposed to identify neighborhoods experiencing decline and to measure the level of this decline. It may be also possible to identify thresholds or levels beyond which decline reaches a "point of no return." Because of their predictive value, threshold indicators may prove useful as planning tools.

The broad macro and micro level processes that lead to or accelerate neighborhood decline are well understood. Most important at the macro level are structural change in the economy, and income levels. Important processes at the micro level are an aging population and public policies, that encourage suburban flight, such as municipal taxation inequities. The relative significance of these factors has yet to be determined.

At the core of the disinvestment process in many urban areas is the **"market gap" problem**, which arises when the cost of renovation and property acquisition exceeds the market value of the renovated home. When circumstances in a neighborhood begin to induce declines in property values and these values drop below the cost of new construction and/or renovation, conventional financing by private capital becomes impossible. In these circumstances, work that would prevent further deterioration and eventual abandonment of residential units and business premises is not done. This has often been a signal to lenders and insurance companies, particularly in the US to either "redline" the area and cease operations completely, or at least to raise interest rates, premiums, and equity requirements to cover the increased risks.

The market gap problem illustrates the self-reinforcing nature of the decline and disinvestment process: the development of one symptom often leads to the emergence or aggravation of other symptoms, thus exacerbating neighborhood distress. The market gap problem also illustrates why the private sector cannot, on its own, reverse disinvestment once it reaches an

advanced stage; the risk and possibility of loss are simply too great. Under such circumstances, effective intervention to reverse decline will require public funds to reduce risk.

Perhaps the most important lesson from the literature is the difficulty of pinpointing a specific trigger that initiates neighborhood decline. Indeed, **urban decline does not have a readily identifiable starting point or single isolated cause**. Instead, decline is triggered by a set of circumstances that is specific to particular cities. Once underway, decline and disinvestment tend to be evolutionary and accretive. Indeed, urban decline is a complex, self-reinforcing phenomenon in which *symptoms* of decline themselves become *causes*. These features of the decline process render the articulation of a reversal strategy extremely challenging.

Clear implications for public policy emerge from the literature review. Because decline is triggered by the coincidence of several precipitating factors, single interventions or interventions that target a single factor will not have measurable effects on decline. Instead, successfully creating the conditions for urban renewal requires specifying a package of complementary interventions tailored to the circumstance of particular cities. Just as certain processes accumulate to trigger decline, a variety of policies must be assembled to initiate its reversal.

The literature makes clear that disinvestment is the result of decline, and not its initial trigger. Nonetheless, if public policy can moderate the risk associated with investing in property and homes in inner city areas, renewed investment can be an important element of a revitalization program.

Lessons from the case studies

Six cities were included in the case studies: Winnipeg, Montréal and Saint John's were studied in more depth while Edmonton, Kitchener and Halifax provided supplementary lessons.

Halifax is exceptional among the six case studies because it has no easily defined areas where disinvestment has occurred on a large scale. The city certainly has its share of low income residents, but they have tended to be dispersed rather than concentrated in specific neighborhoods. Within the context of a strong, diversified economy, Halifax has successfully maintained a vibrant inner city and central business district by maintaining key institutions in the downtown, and by taking advantage of heritage development and the natural attractions of the harbour.

In the other five cities, specific areas of decline are readily identifiable, and efforts to revitalize these areas have met with mixed success. Taken together, the case studies offer some important lessons for municipal officials and urban planners.

First, they show that when restructuring or stagnating economies produce large numbers of low income households, local interventions to halt and reverse decline achieve only limited success. This is perhaps most clearly demonstrated by the Winnipeg case. Because of the extent and depth of the decline and the particular circumstances precipitating it, urban renewal requires not only local action, but substantial intervention by regional and senior governments.

The case studies also show that the experience of each city is unique. The influx of a large, marginalized population, a large proportion of which are Aboriginal people, into Winnipeg's core is a critical part of the explanation for decline in that city, whereas in Kitchener, a weak economy and the proximity of attractive alternative communities are the main factors in decline. The upshot is that each city needs to develop its own portfolio of interventions tackling its unique problems.

Finally, the case studies show that the potential for urban renewal can vary within a single city. For instance, urban areas where buildings of architectural and historical significance present opportunities for tourism and gentrification will have greater success at revitalization than areas without such assets. This has certainly been the case in Halifax, and is also true of Saint John's South Peninsula neighborhood. In both instances, heritage designations have helped to attract private investment. Urban areas that lack architectural or historical assets will require more substantial intervention, by all levels of government.

A framework for action

This research generated a framework for action that offers planners a set of interventions to consider as potential ways of addressing urban decline and disinvestment. Altogether, any combination of policies to reverse decline must reduce the real and perceived barriers to private sector investment in declining urban areas.

Policies that seek to promote economic growth and increase prosperity are fundamental to reversing decline and disinvestment. Indeed, inner city deterioration is frequently a reflection of incomes and relative wealth. Although senior orders of government exert primary influence on the overall state of the economy and the distribution of wealth through fiscal, monetary, and tax policy, local and regional governments can exert some influence by adopting a pro-economic growth stance, by providing subsidies for job creation in distressed areas, and by sponsoring employment and training programs.

Tax equalization between inner city areas and the suburbs help stem inner city decline. Persistent taxation inequities between inner city areas and the suburbs that pull residents away from the city and could be addressed by municipal and provincial governments. A provincial program to review tax levels could, for instance, be a first step in this direction. Rather than raising taxes in ex-urban municipalities, a better strategy may be using grants to lower cities' revenue requirements. The objective of such an approach is to adjust the relative rate of return on housing and land investment in the inner city.

Subsidies to encourage businesses to locate in inner city areas can also help to stem neighborhood decline. For example, tax rebates, grants, and wage subsidies can be used to induce employers to locate in low income areas. Locating public institutions such as government departments, hospitals, universities, and Crown corporations in inner city areas can also have significant positive neighborhood effects. A third option – introducing land-use controls to force retail and commercial development closer to inner city areas – is possible, but may produce adverse outcomes; governments that require employers to accept lower profits risk losing those employers entirely.

Crime prevention is an important aspect of initiatives to address urban decline. Inner city neighborhoods are frequently viewed as unsafe, although they are often no less safe than other areas. A first step is to establish the degree to which crime is actually a problem. If crime is not higher in inner city areas, this fact should be publicized. On the other hand, if safety is an issue, crime prevention and reduction strategies should be implemented.

Infrastructure improvements and improvements in institutional services can greatly enhance the livability of inner city areas. Improvements to infrastructure such as roads, street lighting, parks, recreational facilities, and other similar "cosmetic" changes are highly appreciated by inner city residents and enhance the quality of life in declining areas. Similarly, improvements in institutional services, such as schools and health care, also contribute to better quality of life and more positive perceptions of declining areas on the part of both residents and non-residents.

In addition to the general policies outlined above, specific **housing investment policies** may also be implemented to address urban decline and disinvestment. These include municipal tax rebates for owners who repair, renovate, and replace homes.

Home ownership programs, for instance, can lead to neighborhood stability, improved property values, and fewer social problems. However, such programs have limitations. First, few low income households qualify as potential owners, due to the difficulty of raising the mortgage and maintaining a monthly payment; when they qualify their capacity for payment may be transient. Second, these programs typically work at the fringe of deteriorating areas where blight has not completely eroded the economics of home ownership. Home ownership programs work well if integrated with training for residents. However, the programs typically only benefit households at the top of the low income pool, who can reasonably manage the mortgage and withstand interest rate fluctuations. Lower income households would need alternative means of accessing suitable housing.

Housing repair subsidization can help arrest physical deterioration and slow decline. The impact of such subsidies is directly proportional to the budgets involved. Important elements of such subsidies are audited statements to establish legitimacy of need, and a sufficiently well-developed building inspection process to verify that the funds have been used as promised.

Social housing initiatives have potential to help address the needs of low income residents in declining neighborhoods. Because it is clear that the private sector alone cannot respond to the housing needs of low income households, government mediation in the provision of social housing becomes necessary. Non-profit low income rental housing can reduce

perceptions of risk about investing in deteriorating areas by instilling confidence in the private sector and encouraging private sector investment. Private sector investment, in turn, helps to create the income mix that is so important to neighborhood revitalization. In general, the rental sector suffers by either maintaining rent controls (which constrains overall supply and/or reduces quality of the stock), or by the absence of support for programs to create low income rental housing. The Saint John experience with non-profit housing leading the way in a severely deteriorated neighborhood shows how this strategy contributes to the recovery process.

Heritage designations reduce perceptions of risk and communicate an intent to maintain a neighborhood, thereby increasing its stability. These policies can therefore be an important part of a neighborhood renewal strategy. However, their use is limited to neighborhoods with buildings of historical or architectural significance. Some areas may have few or none. Ironically, heritage designations may often trigger gentrification and displace low income residents. Although gentrification may revitalize inner city areas, it moves a key element of urban decline around the urban map.

Finally, **building and zoning codes** are important policies to reverse decline. A building and zoning code process is often associated with heritage designations; this may entail a relaxation of codes to allow heritage buildings to preserve essential features and still be economically viable. Building and zoning codes can also be used to reverse the "patchwork" of unattractive land uses often develops in inner city areas. However, this is a difficult process. Strict land use policies can exacerbate the economic plight of residents, while uncontrolled land planning can contribute to the ongoing deterioration of the neighborhood. Policies to coordinate land uses can help to reverse deterioration, but planners need to micro-manage this process and proceed incrementally.

Opportunities for partnerships

One of the really difficult problems in revitalizing a poor area is that programs that make the area more attractive for investors simultaneously make it less affordable for residents. This paradox is at the heart of the policy problem in dealing with urban decline and disinvestment. Policies that alter the risk profile of a neighborhood, need to be complemented with the provision of housing options for all incomes. Community-level organization and partnerships are critical in order to effect long-term change.

The term **community capacity** refers to the ability of residents to create viable community organizations to advance the interests of the neighborhood. Low income neighborhoods are especially in need of cooperative action, unlike higher income areas where individual owners can more easily unite to advance the interests of the community. Low income areas are characterized by high transiency, and by residents who lack the leadership skills and education necessary to advance their interests.

Partnerships among local community organizations such as churches, street level clubs, ethnic organizations, banks and credit unions, private businesses, community housing groups, etc. play a very useful role. The Montréal experience illustrates the benefits of such partnerships. However, partnerships are unlikely to develop without a sense of community, the shared vision of a group of people and agencies, and effective leadership. Residents need to develop leadership and the capacity to organize around issues of crime, social services to assist families, and lobbying to increase funding for infrastructure.

Nurturing community organizations and partnerships is a long process. The fact that community organizations in Montréal are now beginning to show effect must be seen in the context of twenty years of programming and consistency of focus.

Conclusion

Perhaps the most important lesson from this research is the ineffectiveness of single sector approaches to revitalization. Instead, comprehensive approaches comprised of a selection of policies tailored to suit the specific circumstances of individual cities are required. All orders of government as well as the private and non-governmental sectors must cooperate in the recovery plan. Furthermore, fostering the capacity of local organizations and residents to act on behalf of their communities can help revitalization become self-sustaining.

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Housing Research at CMHC

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